

# **City of Saint Paul Minnesota**

Comprehensive Annual Financial Report  
for the Fiscal Year Ended  
December 31, 2003



Office of Financial Services  
Matt Smith, Director

**City of Saint Paul**  
**Comprehensive Annual Financial Report**  
**for the Fiscal Year Ended December 31, 2003**  
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CITY OF SAINT PAUL  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

# INTRODUCTORY SECTION

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**City of Saint Paul**

*Randy C. Kelly, Mayor*

*160 City Hall  
15 West Kellogg Boulevard  
Saint Paul, Minnesota 55102-1658*

*Telephone: (651) 266-8800  
Facsimile: (651) 266-8541*

June 30, 2004

To the Honorable Mayor, Members of the City Council, and Citizens of Saint Paul:

The City of Saint Paul's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2003 is hereby submitted. The purpose of this report is to provide the Mayor, City Council, City Staff, citizens, bond holders, and other interested parties with useful information concerning the City's operations and financial position. Responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

The CAFR is presented in three main sections:

1. Introductory Section - includes this transmittal letter, the City's organizational chart and a list of principal officials.
2. Financial Section - includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the basic financial statements, notes to the financial statements and supplementary information.
3. Statistical Section - contains selected financial and demographic information presented on a multi-year basis.

Generally Accepted Accounting Principles (GAAP) require that the City provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Saint Paul's MD&A can be found immediately following the report of the independent auditors.

**INTERNAL CONTROL**

To provide a reasonable basis for making these representations, the City of Saint Paul has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Saint Paul's financial statements in conformity with Generally Accepted Accounting Principles. Because the cost of internal controls should not outweigh their benefits, the City of Saint Paul's comprehensive framework of internal controls has been designed to provide a reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. All internal control evaluations occur within this framework. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

## **BUDGET CONTROL**

The annual budget serves as a foundation for the City of Saint Paul's financial planning and control. In August of each year, the Mayor presents the budget to the City Council for the following calendar year. The budget includes proposed expenditures and means of financing them. The Council then holds a public hearing to obtain taxpayer comments. The budget is legally adopted through the passage of a Council resolution.

City budget amendments that authorize an increase in total fund spending require approval of the City Council. In addition, City Council approval is required for budget amendments transferring appropriations between departments within the General Fund.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and the HRA General Fund, this is presented on pages 119-123 as part of the required supplementary information. For governmental funds, other than the General and HRA General Funds with appropriated annual budgets, this comparison is presented in the nonmajor governmental fund subsection of this report, which starts on page 125.

## **INDEPENDENT AUDIT**

State law requires the State Auditor to perform an annual audit of the City and other cities of the first class in Minnesota. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Saint Paul for the fiscal year ended December 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the City, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Saint Paul's financial statements for the fiscal year ended December 31, 2003, are fairly presented in conformity with GAAP. The State Auditor's report is presented as the first component of the financial section of this report. As part of their examination, the State Auditor is also issuing a Management and Compliance letter covering the review of the City's system of internal control over financial reporting and tests of compliance with certain provision of laws, regulations, contracts and grants. The Management and Compliance letter will not modify or affect, in any way, this report.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit—including the schedule of expenditures of federal awards, findings and recommendations, and auditor's reports on internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grants—will be included in the State Auditor's separately-issued Management and Compliance letter.

## **PROFILE OF THE GOVERNMENT**

The City of Saint Paul has been a municipal corporation since 1854. Saint Paul is the state capital and Minnesota's second largest city. The City covers an area of 56 square miles and is situated wholly in Ramsey County.

The City of Saint Paul, Minnesota has a Mayor-Council form of government. The Mayor is elected by the voters of the City at large for four years on a full-time basis. The City is divided into seven wards. Voters of each ward elect a member of the City Council for four years on a part-time basis. Executive power is vested in the Mayor; legislative power is vested in the Council. The Mayor has veto power, which the Council may override with a vote of five members.

The City provides services, including: police, fire, street, sewer and bridge maintenance, parks and recreation centers, libraries, licensing, building and housing code inspections, planning and economic development, zoning, public improvements and general administration.

## **REPORTING ENTITY**

The City's financial statements include all funds of the City (primary government) and its component units. The primary government represents all funds under the ultimate control of the Mayor and City Council. Certain redevelopment is provided through a legally-separate Housing and Redevelopment Authority (HRA), which functions, in essence, as a department of the City of Saint Paul and; therefore, has been included as an integral part of the City of Saint Paul's financial statements. The City of Saint Paul is also financially accountable for the legally-separate Saint Paul Regional Water Services and the Port Authority of the City of Saint Paul, both of which are reported separately as component units within the City of Saint Paul's financial statements. The nature of the activities of these organizations and the specific justification and methods for inclusion as component units of the City are discussed in the notes to the financial statements.

## **OUTLOOK AND MAJOR INITIATIVES**

Saint Paul has continued to sustain its recent gains in economic growth and development to a great degree during the national recession, and is well-positioned for new growth as the economy recovers. The City's diverse employment base, continued attractiveness to new residents and a variety of housing stock at all affordability levels all contribute positively to the economic outlook.

Saint Paul's 2000 population, per the U.S. Bureau of Census, is 287,151, an increase of 5.5% since 1990. The most current data available and recorded by the Metropolitan Council indicates that the number of households in the City has remained relatively stable during the 1990s and was 112,784 in 2002. According to the Minnesota Department of Employment and Economic Development, the City added a total of 15,494 jobs during the 1993-2000 growth cycle, and maintained over two-thirds of those (4,255 jobs lost) through 2002 as the national recession was felt locally. Similarly, tax base growth has been strong and sustained: between 1994 and 2003, the City's property tax base market value grew 116 percent. Relatively high incomes and moderate housing costs combine to rank Saint Paul comparatively high in overall housing affordability. The City's population increased 5.5 percent between the 1990 and 2000 censuses.



To maintain this economic growth, the City will continue to pursue strategies to improve the quality of life and the competitiveness of the City by strategically shaping market forces that are now reinvesting in the urban core. Though it is contained in literally dozens of plans, policies and programs, the City's revitalization initiatives can be summarized into the five interrelated strategies listed below.

In response to shifting economic circumstances and to the City's successes to date, the City is implementing these revitalization strategies in a new way. Unlike in the past, when funds for public subsidies were more readily available, the City now is consciously developing new public-private partnerships and investing limited public funding to leverage the vastly greater resources and flexibility of the private sector.

### **Strategy 1 – Develop new housing and new neighborhoods:**

The City is capitalizing on market forces to serve the diverse needs of residents at all incomes and all stages of life. The City is developing entirely new neighborhoods, as well as strengthening existing mixed-use urban villages in the downtown and along transit corridors.

A key element of the housing strategy is the City's four-year Housing 5000 program to develop 5,000 new units of housing by the end of 2005, to which the City has dedicated \$20 million in public funds to leverage \$1 billion in private investment. At the half-way mark, the program has exceeded its targets for development, leveraging private investment and affordability:

- The City's goal was to develop 2,500 housing units by the end of 2003, and it has closed on 2,784 units.
- The City's goal was to see \$500 million in public and private funds invested, and the 2,784 units reflect a commitment of \$537 million.
- The City's goal was to develop 500 units of the 2,500 as affordable housing, and 658 units of affordable housing are being built.

Key to this success has been the City's leveraging \$5 million a year in local funds, successfully competing for state grants (for remediating contamination and developing urban villages) and establishing the Land Assembly Fund to accelerate land assembly for Housing 5000 projects moving through the pipeline.

### **Strategy 2 – Reconnect the City to the Mississippi River:**

The City is reestablishing its lost connections, between the Mississippi River and its downtown, and along its underutilized rail lines and river tributaries, between the Mississippi and other City neighborhoods. To help guide public and leverage private investment, the City helped form the independent nonprofit Saint Paul Riverfront Corporation a decade ago. Every year the City contributes staff to fund one of its programs: the Saint Paul on the Mississippi Design Center, which directed the community process that created the award-winning *Saint Paul on the Mississippi Development Framework*.

### **Strategy 3 – Concentrate scarce resources on development corridors:**

The City is concentrating its efforts on areas with the greatest need and opportunity by making strategic investments in remediating contaminated land and improving transportation infrastructure in areas left underutilized by changes in the economy and transportation system. In the past decade, the City and the Port Authority have developed long-term strategies for the integrated redevelopment of underutilized and contaminated railway, roadway and river corridors. These include:

- Underutilized rail corridors (like the Phalen and Great Northern Corridors)
- Underutilized transit corridors (like the University Avenue and Riverview Corridors)
- The underutilized river corridor
- Individual “main streets” (like Payne Avenue, Selby Avenue, and the District del Sol)

### **Strategy 4 – Reposition the downtown in the regional marketplace:**

The City is concentrating its marketing efforts on reinforcing the downtown as the office, cultural and recreational capital of the east metro region. To support this, the City has adopted a Downtown Development Strategy which seeks to create a better balance among transit modes, to develop the downtown as the cultural capital of the metro area and to integrate the downtown with the state capitol campus.

### **Strategy 5 – Grow good jobs and diversify the economy:**

The City is diversifying its economy by targeting established industry clusters (printing, computers, insurance, medical devices and precision machinery), emerging clusters (bioscience, health care and universities), and encouraging the growth of businesses owned by women, minorities, disabled and disadvantaged entrepreneurs.

A notable example is in the bioscience sector: In 2003, the State designated an area near the University of Minnesota Saint Paul campus as a *Bioscience Zone*, making bioscience enterprises there eligible for tax and other incentives. To position the City to better compete for high value bioscience jobs, it has partnered with the University of Minnesota’s *University Enterprise Laboratories*, which will manage the bioscience incubator the City owns to grow firms coming out of the University with proprietary bioscience technologies.

## **CASH AND INVESTMENT MANAGEMENT**

Cash balances during the year were invested in U.S. Treasuries, Agencies of the Federal Government, commercial paper, certificates of deposit, municipal securities, money market funds and guaranteed investment contracts, in accordance with Minnesota State Statute 118A and the City’s Investment Policy. A new investment policy was adopted by City Council in July 2003 to improve management of the City’s investment portfolio. The investment policy’s goal is to preserve safety by minimizing credit and market risks while ensuring liquidity and maintaining a competitive yield on the portfolio.

The City has contracted investment management services with five external managers to manage a portion of the portfolio. The total return on the portfolio from the inception of the external managers in July 1999 through 2003 was 6.4% and reported interest on investments of \$9.6 million for the year ended December 31, 2003. All of the investments held by the City at December 31, 2003 are classified in the category of lowest custodial credit risk as defined by the Governmental Accounting Standards Board.

## **DEBT MANAGEMENT**

The City of Saint Paul partners with Ramsey County and Independent School District #625 (Saint Paul Public Schools) as members of the Joint Property Tax Advisory Committee (JPTAC). The JPTAC, created by Minnesota law, is charged with the obligation to reduce the overall tax burden on the citizens of Saint Paul. The Joint Debt Advisory Committee (JDAC), a sub-committee of JPTAC, is charged with overseeing and reporting to the public on joint debt activities. This group evaluates compliance by the jurisdictions within the adopted target ranges for satisfactory debt management and releases its findings in the Joint Debt Book, which is published every two years. The JDAC is in the process of updating the Joint Debt Book for general obligation debt issuance supported by property taxes through December 31, 2003.

The City maintained its AAA bond rating from Standard & Poor's and Aa2 bond rating from Moody's due to strong financial performance. In addition to the interest cost saving from having a high bond rating, the City took advantage of record low interest rates to refund a number of existing bond issues during 2003.

## **RISK MANAGEMENT**

The City has a centralized Risk and Employee Benefit Management Division within the Office of Human Resources that provides direction, management, coordination and planning services for risk, insurance and employee benefit programs. The risk management effort covers significant loss exposures, applies effective and reasonable risk controls and suggest funding arrangements for both insured and self-funded risks to ensure that the financial integrity of the City is not impaired after a loss.

The Risk and Employee Benefit Management Division also provides administrative and management services in the areas of health and welfare benefits, tort liability, workers' compensation, occupational health, loss control and safety, emergency preparedness, contract review and property insurance.

Additional information on the City of Saint Paul's risk management activities can be found in Note VIII. C. of the notes to the financial statements.

## **PENSION PLANS**

City employees are covered under the Public Employees Retirement Association or the Housing and Redevelopment Authority Pension Plan. The Public Employees Retirement Association was established by state law and requires membership by qualified City employees.

The Housing and Redevelopment Authority Pension Plan, as of December 31, 2003, covered 15 employees. The plan is a benefit to those employees who transferred to the City from the Housing and Redevelopment Authority with the 1977 merger of the two agencies. The plan is fully funded.

Both employees and the City are required to contribute to the pension plans.

The Public Employees Retirement Association (PERA) administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing multiple-employer public employee retirement plans. All full-time employees and certain part-time employees who are not participants of the Housing and Redevelopment Authority Pension Plan participate in the PERA plans. PERF members belong to either the Coordinated or Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify for membership by statute are covered by the PEPFF and are not coordinated with Social Security.

The City remains current in funding all pension obligations. Additional information on the City of Saint Paul's pension arrangements can be found in Note VIII. A. in the notes to the financial statements.

## **AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Saint Paul, Minnesota for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2002. This was the twenty-seventh consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently-organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

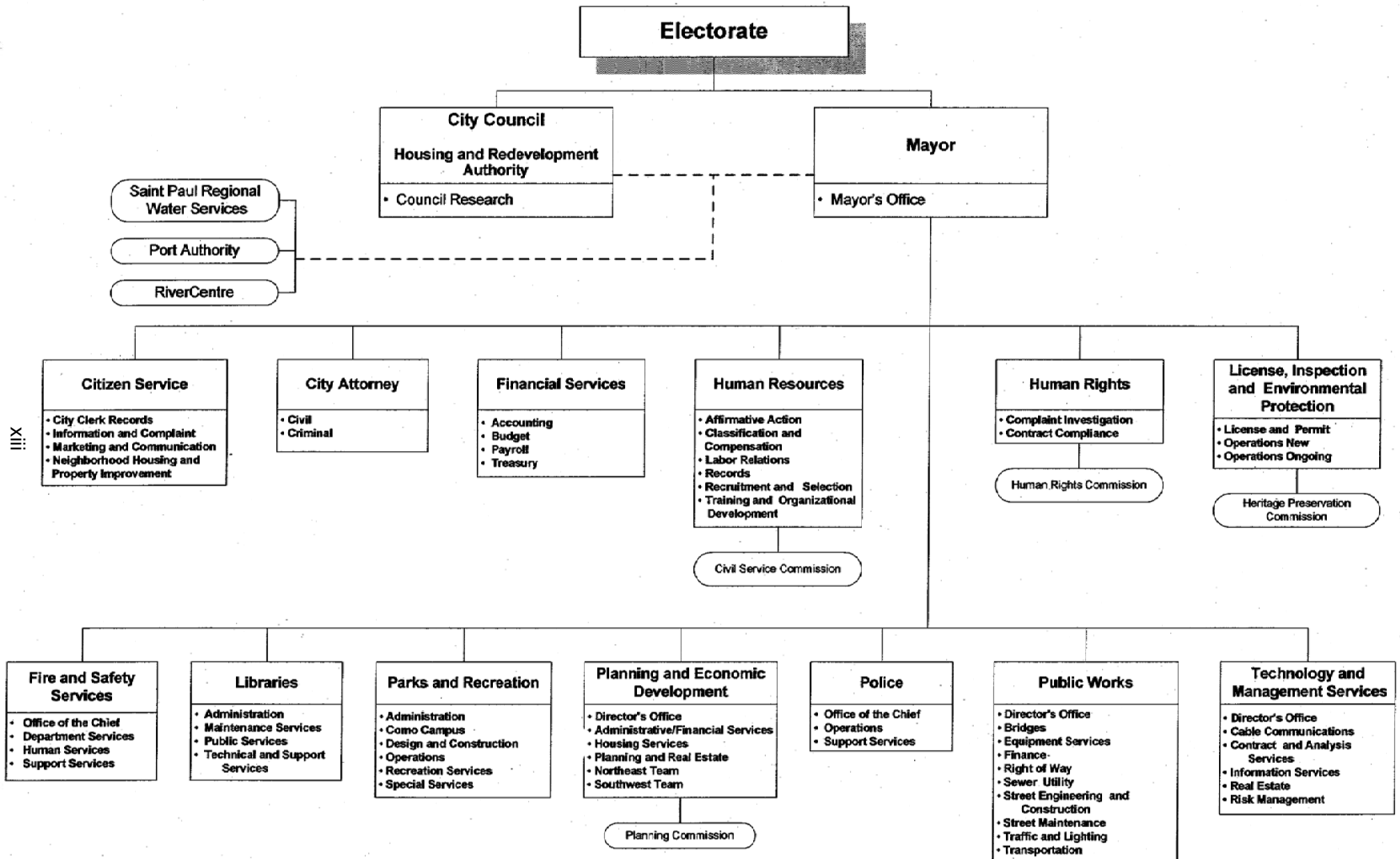
The preparation of the 2003 Comprehensive Annual Financial Report was accomplished through the combined efforts of the Office of Financial Services' accounting staff and departmental accountants. The State Auditor's cooperation in scheduling staff to review statements as they were prepared was very helpful and appreciated.

Cordially,

Matt Smith, Director  
Office of Financial Services

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# City of Saint Paul, Minnesota Organizational Chart



**City of Saint Paul, Minnesota  
Elected and Appointed Officials  
As of December 31, 2003**

**Elected Officials**

<b>Office</b>	<b>Name</b>	<b>Term Expires</b>
Mayor	Randy C. Kelly	January 1, 2006
Councilmembers:		
District 1	Debbie Montgomery	January 1, 2008
District 2	Dave Thune	January 1, 2008
District 3	Patrick Harris	January 1, 2008
District 4	Jay Benanav	January 1, 2008
District 5	Lee Helgen	January 1, 2008
District 6	Daniel Bostrom	January 1, 2008
District 7	Kathy Lantry	January 1, 2008

**Appointed Officials**

<b>Department/Division/Office</b>	<b>Director's Name</b>	<b>Term Expires</b>
Citizen Services	Donald Luna	*
City Attorney	Manuel Cervantes	*
Financial Services	Matt Smith	*
Fire and Safety Services	Douglas Holton	August 18, 2009
Human Rights	Tyrone Terrill	*
Human Resources	Angela Nalezny	*
License, Inspection and Environmental Protection	Janeen Rosas	*
Mayor's Chief of Staff	Dennis Flaherty	*
Parks and Recreation	Bob Bierscheid	*
Planning and Economic Development	Martha Fuller	*
Police	William Finney	July 17, 2004
Property Code Enforcement	Andy Dawkins	*
Public Libraries	Gina LaForce	*
Public Works	Bob Sandquist	*
RiverCentre	Bill Huepenbecker	**
Technology and Management Services	Karen Johnson	*
Saint Paul Regional Water Services	Stephen Schneider	*

\* Serves at pleasure of the Mayor

\*\* Serves at pleasure of the RiverCentre Authority

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Saint Paul,  
Minnesota

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enen".

Executive Director



CITY OF SAINT PAUL  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL  
SECTION

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

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1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

The Honorable Randy C. Kelly, Mayor,  
and Members of the City Council  
City of Saint Paul, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Port Authority of the City of Saint Paul, which represent 37 percent and 50 percent, respectively, of the assets and program revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Port Authority of the City of Saint Paul, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Port Authority of the City of Saint Paul were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.



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In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information, listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Saint Paul's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we are also issuing a report dated June 4, 2004, on our consideration of the City of Saint Paul's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. It does not include the Port Authority of the City of Saint Paul, which is audited by other auditors.



PATRICIA ANDERSON  
STATE AUDITOR



GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 4, 2004

CITY OF SAINT PAUL  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

# FINANCIAL SECTION

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For Year Ended December 31, 2003

As management of the City of Saint Paul, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with the City's financial statements and the additional information that we have furnished in our letter of transmittal, which can be found on pages v-xi of this report.

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### FINANCIAL HIGHLIGHTS

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- The assets of the City of Saint Paul exceeded its liabilities at the close of the most recent fiscal year by \$1,241.3 million (*net assets*). Of this amount, \$177.1 million (*unrestricted net assets*) may be used to meet the government's obligations to citizens and creditors; \$23.8 million is restricted for specific purposes and \$1,040.5 million is invested in capital assets net of related debt. The total net assets include all major infrastructure networks.
- The City's total net assets increased by \$20.3 million. Governmental activities increased by \$19.2 million, whereas business-type activities increased by \$1.0 million.
- The City of Saint Paul's governmental funds reported combined ending fund balances of \$226.7 million, a decrease of \$4.7 million in comparison with the prior year. Approximately 88.5% of this amount, \$200.7 million, is unreserved and available for use within the City's designations and policies.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$32.5 million or approximately 18.5% of the total General Fund expenditures.
- The City's total long-term bonds and notes decreased by \$5.4 million, a 1.0% decrease from 2002 for a total outstanding on December 31, 2003 of \$525.1 million.

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

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### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure.

The *Statement of Activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, health, culture and recreation, and housing and economic development. The business-type activities of the City of Saint Paul include the convention facility; sewer; development loan programs; parking; parks, recreation and athletics; impound lot; and printing.

The government-wide financial statements include not only the City of Saint Paul itself (known as the primary government), but also the Regional Water Services and Port Authority, which are separate legal entities for which the City of Saint Paul is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Housing and Redevelopment Authority of the City of Saint Paul (HRA), although legally separate, functions for all practical purposes as a department of the City of Saint Paul; and therefore, has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 21-23 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

*Governmental Funds* – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

# CITY OF SAINT PAUL

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

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### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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#### *Governmental Funds* (continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 54 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, HRA General, General Debt Service, HRA General Debt Service and Capital Improvement Projects funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 24-30 of this report.

*Proprietary Funds* – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its RiverCentre Operating, Sewer Utility, HRA Loan Enterprise, HRA Parking, Special Services, Rice and Arlington Sports Dome, Watergate Marina, Impounding Lot and RiverPrint Saint Paul/Ramsey County activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for City Attorney – Outside Services, Internal Borrowing, Purchasing's Value Added Services, Real Estate Management, Information Systems, City-Wide Data Processing, Equipment Services Fire-Police, Public Works Engineering, Public Works Traffic, Signal and Lighting Maintenance, Asphalt Plant, Public Works Equipment, Public Works Administration, Parks and Recreation Special Projects, Parks and Recreation Supply and Maintenance, and Planning and Economic Development Administration. The services provided by these funds predominately benefit the governmental rather than the business-type functions. They have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the RiverCentre Operating, Sewer Utility, HRA Loan Enterprise and HRA Parking funds, since they are considered to be major funds of the City. Data from the other enterprise funds are combined into a single aggregated presentation. All internal service funds are combined into a separate single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 31-37 of this report.

*Fiduciary Funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 39 of this report.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For Year Ended December 31, 2003

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### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43-117 of this report.

#### Other Information

In addition to the basic financial statements and accompanying notes, *Required Supplementary Information*, presents a detailed budgetary comparison schedule for the General Fund and the HRA General Fund to demonstrate compliance with the budget. These schedules can be found on pages 119-123 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds, proprietary funds, internal service funds and other information related to the individual funds are presented immediately following the required supplementary information. Combining and individual statements and schedules can be found on pages 130-195 of this report.

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### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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An analysis of the City's financial position begins with a review of the *Statement of Net Assets* and the *Statement of Changes in Net Assets*. These two statements report the City's net assets and changes therein. It should be noted that the financial position can also be affected by non-financial factors, including economic conditions, population growth and new regulations.

The City first implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, in 2002.

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Saint Paul, assets exceeded liabilities by \$1,241.3 million as of December 31, 2003.



# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

#### CONDENSED STATEMENT OF NET ASSETS (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total
	2003	2002 (Restated)	2003	2002 (Restated)	2003	2002 (Restated)	Percent Change
Current and Other Assets	\$496,559	\$510,221	\$106,339	\$128,387	\$602,898	\$638,608	(5.6)%
Capital Assets	1,061,925	1,017,161	360,861	347,959	1,422,786	1,365,120	4.2%
Total Assets	\$1,558,484	\$1,527,382	\$467,200	\$476,346	\$2,025,684	\$2,003,728	1.1%
Long-Term Liabilities	\$450,572	\$429,052	\$135,176	\$149,593	\$585,748	\$578,645	1.2%
Other Liabilities	188,886	198,551	9,700	5,470	198,586	204,021	(2.7)%
Total Liabilities	\$639,458	\$627,603	\$144,876	\$155,063	\$784,334	\$782,666	0.2%
Net Assets:							
Invested in							
Capital Assets,							
Net of Related	\$795,318	\$724,623	\$245,188	\$235,294	\$1,040,506	\$959,917	8.4%
Debt							
Restricted	13,559	25,820	10,196	9,052	23,755	34,872	(31.9)%
Unrestricted	110,149	149,336	66,940	76,937	177,089	226,273	(21.7)%
Total Net Assets	\$919,026	\$899,779	\$322,324	\$321,283	\$1,241,350	\$1,221,062	1.7%

The largest portion of the City's net assets, \$1,040.5 million (approximately 83.8%), reflects its investments in capital assets (e.g., land, building, improvements, equipment, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$23.8 million (approximately 1.9%), represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$177.1 million, may be used to meet the government's ongoing obligation to citizens and creditors.

As of December 31, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories—governmental and business-type activities.

**CITY OF SAINT PAUL, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For Year Ended December 31, 2003

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)**

**Analysis of the City's Operations** – The following table provides a summary of the City's operations for the year ended December 31, 2003. Governmental activities increased the City of Saint Paul's net assets by \$19.3 million. Business-type activities decreased the City's net assets by \$1.0 million.

**CONDENSED STATEMENT OF CHANGES IN NET ASSETS**  
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total
	2003	2002 (Restated)	2003	2002 (Restated)	2003	2002 (Restated)	Percent Change
Revenues:							
Program Revenues							
Charges for Services	\$69,287	\$81,368	\$66,987	\$65,127	\$136,274	\$146,495	(7.0)%
Operating Grants and Contributions	24,024	32,629	903	557	24,927	33,186	(24.9)%
Capital Grants and Contributions	36,811	18,506	616	3,500	37,427	22,006	70.1 %
General Revenues							
Property Taxes	70,767	68,748	1,203	1,195	71,970	69,943	2.9%
City Sales Tax	13,312	13,344	-	-	13,312	13,344	(0.2)%
Franchise Fees and Other Taxes	23,049	23,472	-	71	23,049	23,543	(2.1)%
Local Government Aid	63,084	73,554	-	-	63,084	73,554	(14.2)%
Grants and Contributions							
Not Restricted	19,868	7,086	94	69	19,962	7,155	179.0%
Investment Income	6,926	13,920	328	2,344	7,254	16,264	(55.4)%
Miscellaneous	6,153	4,344	241	347	6,394	4,691	36.3 %
Total Revenues	<u>\$333,281</u>	<u>\$336,971</u>	<u>\$70,372</u>	<u>\$73,210</u>	<u>\$403,653</u>	<u>\$410,181</u>	(1.6)%

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

#### CONDENSED STATEMENT OF CHANGES IN NET ASSETS (in thousands of dollars)

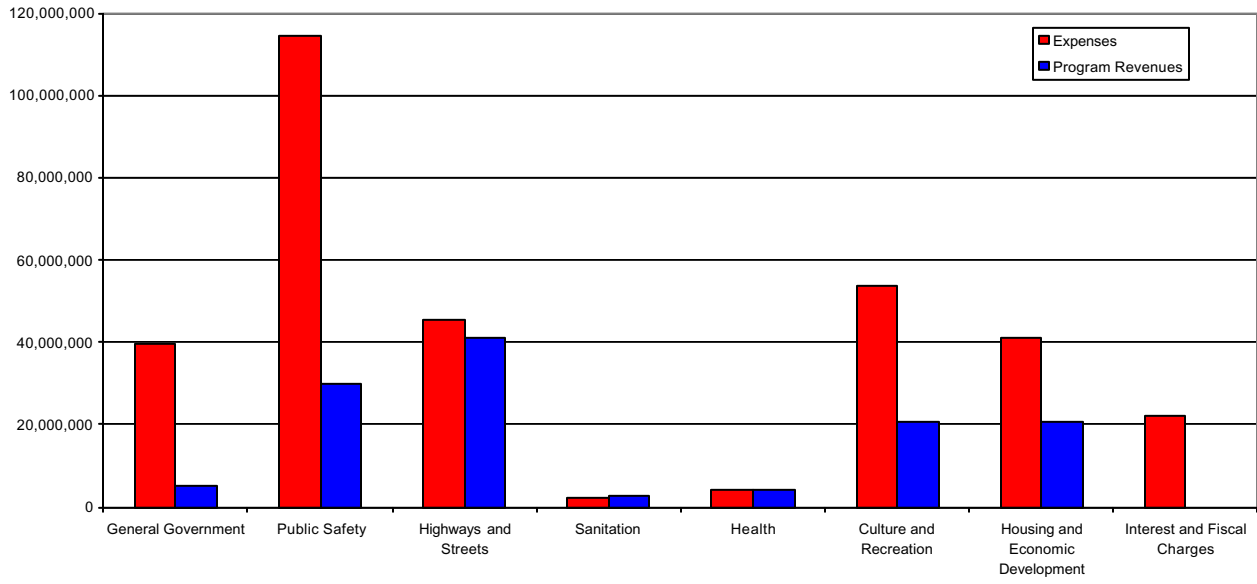
	Governmental Activities		Business-Type Activities		Total		Total
	2003	2002	2003	2002	2003	2002	Percent
		(Restated)		(Restated)		(Restated)	Change
Expenses:							
General Government	\$39,529	\$48,010	-	-	\$39,529	\$48,010	(17.7)%
Public Safety	114,229	114,396	-	-	114,229	114,396	(0.1)%
Highway and Streets	45,362	42,317	-	-	45,362	42,317	7.2%
Sanitation	2,486	7,191	-	-	2,486	7,191	(65.4)%
Health	4,114	4,115	-	-	4,114	4,115	0.0%
Culture and Recreation	53,672	56,222	-	-	53,672	56,222	(4.5)%
Housing and Economic Development	41,281	32,636	-	-	41,281	32,636	26.5%
Interest and Fiscal Charges	22,275	22,345	-	-	22,275	22,345	(0.3)%
Convention Facility	-	-	7,259	7,775	7,259	7,775	(6.6)%
Sewer	-	-	29,404	30,641	29,404	30,641	(4.0)%
Development Loan Programs	-	-	5,854	4,430	5,854	4,430	32.1%
Parking	-	-	8,430	9,430	8,430	9,430	(10.6)%
Parks, Recreation and Athletics	-	-	6,028	5,996	6,028	5,996	0.5%
Impound Lot	-	-	2,154	2,079	2,154	2,079	3.6%
Printing	-	-	1,288	1,475	1,288	1,475	(12.7)%
Total Expenses	\$322,948	\$327,232	\$60,417	\$61,826	\$383,365	\$389,058	(1.5)%
Increases in Net Assets							
Before Transfers	\$10,333	\$9,739	\$9,955	\$11,384	\$20,288	\$21,123	(4.0)%
Transfers	8,914	11,767	(8,914)	(11,767)	-	-	N/A
Change in Net Assets	\$19,247	\$21,506	\$1,041	\$(383)	\$20,288	\$21,123	(4.0)%
Net Assets – January 1	\$899,779	\$878,273	\$321,283	\$321,666	\$1,221,062	\$1,199,939	1.8%
Net Assets – December 31	\$919,026	\$899,779	\$322,324	\$321,283	\$1,241,350	\$1,221,062	1.7%

# CITY OF SAINT PAUL, MINNESOTA

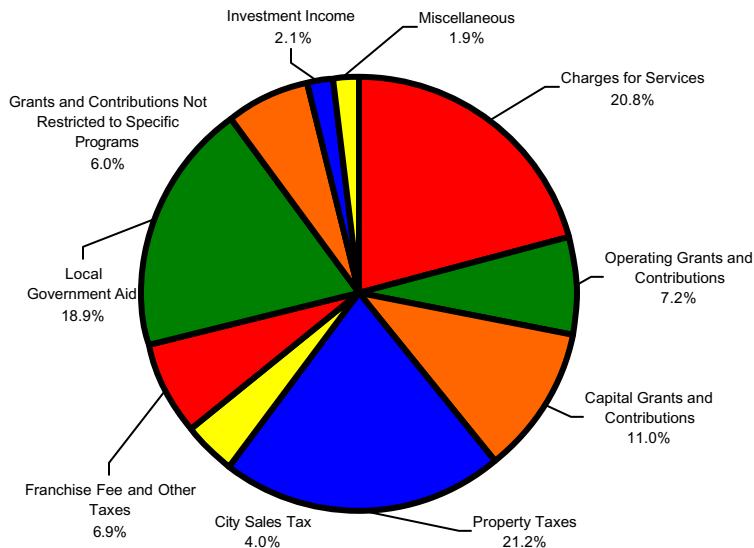
## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

#### Expenses and Program Revenues - Governmental Activities



#### Revenue by Source - Governmental Activities

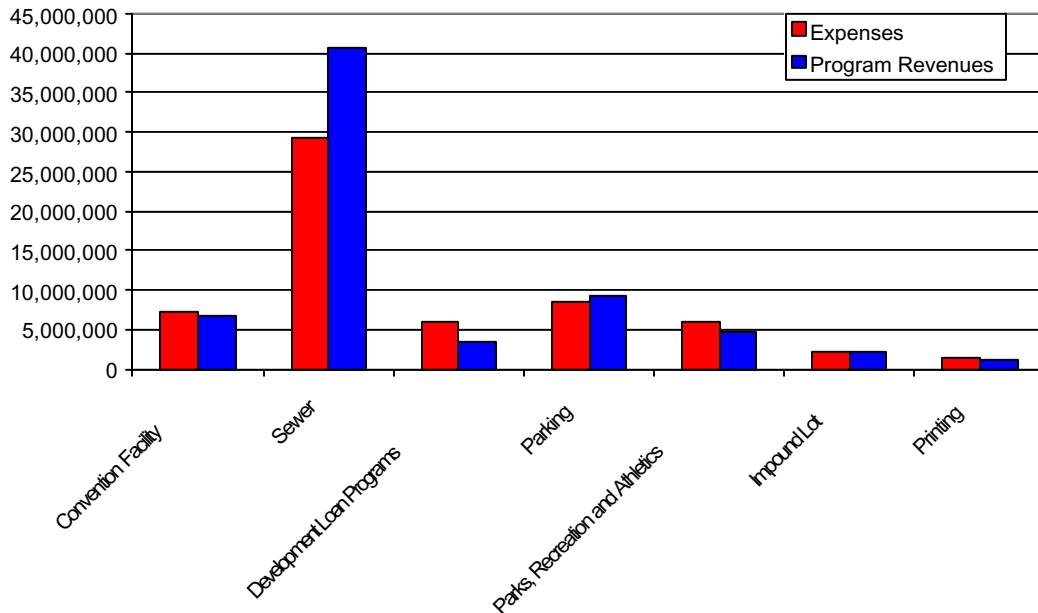


# CITY OF SAINT PAUL, MINNESOTA

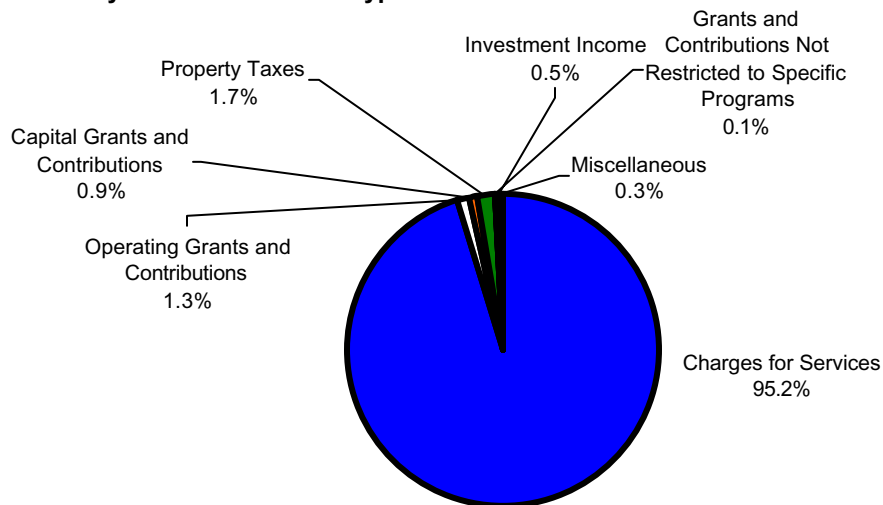
## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

#### Expenses and Program Revenues - Business-type Activities



#### Revenues by Source - Business-type Activities



# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

#### Governmental Funds

The focus of the City of Saint Paul's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

At the end of current fiscal year, the City of Saint Paul's governmental funds reported combined ending fund balances of \$226.7 million. Approximately 88.5% of this total amount (\$200.7 million) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending, because it has already been committed 1) to pay for encumbrances (\$20.7 million); 2) for imprest funds (\$90,315); 3) advances to other funds (\$3.4 million); 4) mandatory 5% for debt retirement (\$1.1 million); 5) moral obligation to Port Authority hotel bond (\$472,885) and 6) for permanent funds' activities (\$35,000).

Of the \$200.7 million unreserved fund balance, the use is available for specific purposes in which these funds were collected.

	(in thousands)
General Fund	\$32,510
Special Revenue Funds	54,295
Debt Service Funds	68,741
Capital Projects Funds	45,077
Permanent Funds	28
Total	<u>\$200,651</u>

**General Fund:** The General Fund is the primary operating fund of the City. Total fund balance as of December 31, 2003 was \$37.8 million, of which \$32.5 million was unreserved. It may be useful to compare unreserved fund balance to total fund balance and total fund expenditures as a measure of the fund's liquidity. Unreserved fund balance represents 85.9% of total fund balance and 18.5% of total fund expenditures. This exceeds the City's policy of maintaining a minimum fund balance of 15.0% of total expenditures for cash flow and revenue estimates. The fund balance decreased by \$3.1 million during the current fiscal year. This was a planned spend-down designed to keep the City's property tax levy at a constant level. The following tables provide an overview of General Fund revenues by source and expenditures by function.

Revenues by Source (in thousands)	2003	2002	Percent Change
Property Taxes	\$40,107	\$40,235	(0.3)%
Franchise Fees and Other Taxes	18,438	18,859	(2.2)%
Intergovernmental	76,196	87,172	(12.6)%
Fees, Sales, Services	13,300	11,720	13.5 %
Interest	2,752	6,556	(58.0)%
Miscellaneous	650	702	(7.4)%
Transfers In	9,925	6,127	62.0 %
Capital Lease	13,845	-	100.0 %
Total	<u>\$175,213</u>	<u>\$171,371</u>	<u>2.2 %</u>

## CITY OF SAINT PAUL, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

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#### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (continued)

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Property tax revenue has remained constant because the City's tax levy has been held constant for ten consecutive years. Intergovernmental revenue decreased by \$11 million due to a reduction in Local Government Aid of \$13 million by the State of Minnesota in response to current economic conditions. Interest earnings declined by \$3.8 million as a result of a \$1.2 million decrease in the fair market value of investments and lower investment balances and interest rates. Fees, sales and services increased by \$1.5 million mainly due to a 6% increase in paramedic transport charge from \$823 to \$870, which accounts for \$900,000 of the increase. Also, an expansion of the "continuance for dismissal" fee to include traffic violations through the City Attorney's office generated additional revenue of \$400,000. Transfers into the General Fund also increased significantly because of a different calculation for central service charges recovered from other funds to include the cost of information technology.

Expenditures by Function (in thousands)	2003	2002	Change
General Government	\$20,996	\$21,856	(3.9)%
Public Safety	95,205	94,164	1.1 %
Highways and Streets	4,949	5,783	(14.4)%
Culture and Recreation	32,339	34,584	(6.5)%
Housing and Economic Development	793	1,097	(27.7)%
Miscellaneous	6,279	6,614	(5.1)%
Capital Outlay	14,941	2,199	579.5 %
Transfers Out	2,855	7,165	(60.2)%
Total	<u>\$178,358</u>	<u>\$173,461</u>	<u>2.8 %</u>

Total expenditures in the General Fund increased by \$4.9 million, which is a result of a combination of both increased and decreased spending. The most significant increase occurred in capital outlay. The City recorded capital outlay and a corresponding capital lease in the amount of \$13.8 million associated with the purchase and renovation of a new police headquarters facility. After factoring out this one-time occurrence, General Fund expenditures decreased by \$8.9 million in response to the reduction in Local Government Aid. This was accomplished in part by a reduction in salaries and overtime of \$1.9 million, mainly through attrition and eliminating vacant positions, while maintaining existing levels of police and fire personnel. Also, the transfer of \$3.9 million to the Street Repair and Cleaning Special Revenue Fund for winter street maintenance was eliminated, which will be replaced by a new Right-of-Way assessment in 2004.

**HRA General Fund:** The HRA General Fund is the chief operating fund of the HRA. Revenues include the HRA property tax levy, fees from conduit revenue bond issues, property rentals, land sale proceeds and investment earnings. The major spending activities are for staff administration of HRA programs, maintenance of HRA properties and professional services for HRA programs and projects. The fund balance in the HRA General Fund decreased during 2003 by \$1.6 million to a total of \$6.6 million at December 31, 2003, which is healthy relative to 2003 fund total spending of \$10.8 million. Differences between HRA General Fund budgeted spending and actual spending was minor—less than 11% of the total 2003 budget. Actual revenues were under the 2003 budget by less than 1%.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

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### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (continued)

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**General Debt Service Fund:** The City's General Debt Service Fund accounts for the revenues and expenditures relating to the City's general obligation debt that is supported by property tax revenues. During 2003, \$29.1 million was received in revenues and transfers in, while \$24.8 million was expended on debt payments. The General Debt Service Fund also reported a refunding bond issue of \$3,235,000, which was used to defease the 1995 Capital Improvement Bonds. The total fund balance of \$27.8 million at the end of fiscal year 2003 is to be used for future debt service payments.

**HRA General Debt Service Fund:** The HRA Debt Service Fund accumulates resources and pays debt service for the HRA's debt that is not financed by its two enterprise funds. Debt service on the bonds is financed by property tax increments, City sales taxes, lease payments from the City and investment earnings. At December 31, 2003, the fund balance was \$27.1 million, of which \$27.1 million is to be used for future debt service. Total debt spending during 2003 was \$35.8 million.

**Capital Improvement Projects Fund:** The City's Capital Improvement Projects Fund accounts for the major capital improvement projects relating to City-owned capital assets. Total expenditures reported by this fund in 2003 was \$67.7 million. The total fund balance at December 31, 2003 was \$3.4 million. The fund reported reserves for existing contracts of \$16.1 million. The City's Residential Street Vitality Program, Major Sewer Repairs, Downtown Streets Redesign, the Como Visitor and Education Resource Center and the construction and rehabilitation of various recreation centers in the City were among the projects with the largest amount of expenditures in 2003.

### Proprietary Funds

The City of Saint Paul's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**RiverCentre Operating Fund:** The RiverCentre Operating Fund had unrestricted net assets of \$450,501. Net assets decreased by \$401,039. In the third year of the new complex, the RiverCentre continued to build a national reputation as a complete and first class venue for concerts, meetings and conventions. However, the economy slowdown is affecting meeting and event industry's buying decisions. The RiverCentre also competes with other publicly-owned convention centers.

**Sewer Utility Fund:** The unrestricted net asset balance in the City's Sewer Utility Enterprise Fund was \$16.7 million at December 31, 2003. This includes two significant items that relate to the Sewer Utility's operations. First, the operating cash balance increased from year end 2002 to year end 2003 by \$1.4 million, which reflects an unanticipated refund of \$1.8 million from Metropolitan Council Environmental Services (MCES) and a net loss of \$340,362. Secondly, while unrestricted net assets decreased by \$5 million, funds invested in capital assets increased by nearly \$5 million.

At this time, the only restrictions placed on resources in the Sewer Utility Enterprise Fund are those related to outstanding debt, which are not unusual in their nature or restrictions. In March 2004, Standard & Poor's Rating Group indicated their support of Sewer Utility management by maintaining their rating of the Sewer Utility's revenue bonds of AAA and Moody's increased their rating to AA3.



# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

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### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (continued)

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**HRA Loan Enterprise Fund:** The HRA Loan Enterprise Fund accounts for loans issued and related servicing for various housing and economic development programs and projects. The Fund has unrestricted net assets totaling \$45.2 million at December 31, 2003. The assets of the Fund include loans receivable, which are reported at \$26.9 million (net of allowance) and, in many cases, have long repayment terms before there will be liquidation to cash. Cash and investments are reported at \$10.9 million at December 31, 2003. The Fund had an overall increase in net assets of \$0.5 million for 2003.

**HRA Parking Fund:** The HRA Parking Fund accounts for the operation of HRA-owned parking facilities in Saint Paul. The Fund had unrestricted net assets of \$7.7 million at December 31, 2003. Assets in the Fund include capital assets for parking facilities reported at the depreciated amount of \$85.2 million. Long-term debt used for financing the construction of the parking facilities is \$83.5 million in principal outstanding at December 31, 2003. The Fund had operating income of \$3.8 million during 2003. After interest on long-term debt and other nonoperating revenues and expenses are applied, the Fund had a net income of \$1.5 million.

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### GENERAL FUND BUDGETARY HIGHLIGHTS

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The final amended budget for the General Fund includes the original adopted budget, plus any previously appropriated funds set aside for the purpose of honoring legally-incurred obligations (prior year encumbrances and commitments), plus any additional supplemental appropriations that were legislated by City Council during the year. The total original adopted budget including transfers out was \$175.4 million, plus reserved for encumbrances carried forward of \$2.6 million, for total original appropriations of \$178 million. This, compared to final appropriations of \$184.4 million, is \$6.4 million greater than the original budget.

The majority of the difference between the adopted and final budget was related to the following items:

- \$13.8 million increase in capital outlay to account for the capital lease for the new police headquarters facility.
- \$939,892 additional interest expense relating to security lending transactions which was offset by interest earnings of \$1,026,717.
- \$700,000 increase recognizing a Federal Grant from the Federal Emergency Management Agency Assistance to Firefighters program for fire operations and firefighter safety to purchase new self contained breathing apparatus protective equipment.
- \$10.6 million decrease in department spending and \$2.4 million increased financing to balance the 2003 adopted budget in response to \$13 million reduction in Local Government Aid.

2003 actual spending including transfers out was \$178.4 million, as compared to final budget of \$184.4 million resulted in a \$6 million positive variance. Actual expenditures were 97% of the budgeted amount. Over the past ten years, the City's actual expenditures compared to budget have averaged 95.9%. In addition, overtime in the Department of Fire and Safety Services was reduced by \$1 million and various positions city-wide were kept vacant in anticipation of 2004 budget reductions.

## **CITY OF SAINT PAUL, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003**

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#### **CAPITAL ASSETS**

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At the end of 2003, the City had invested a total of \$1,422.8 million in capital assets (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction work in progress of the City, including the capital assets recorded for the City's internal service funds which have depreciated value of \$11.5 million.

Major capital asset events during the current fiscal year included the following:

In 2003, the City entered into a capital lease agreement for \$13.8 million for the purchase and renovation of a new police headquarters facility, known as the James Griffin Building. This facility is located adjacent to the new Ramsey County Law Enforcement Center.

Public Works completed its eighth year of the Residential Street Vitality Program (RSVP) by substantially completing two major projects during 2003: the Edgebrook/Morningside RSVP in the amount of \$2.7 million, and the Wheeler/Iglehart RSVP in the amount of \$3.9 million.

The Sewer System Rehabilitation program is in its sixth year. The Edgumbe/Niles Relining project was awarded in the amount of \$1.4 million, with an estimated completion date of May 30, 2004. A contract for Lift Station Rehabilitations was awarded in the amount of \$435,537 and should be completed late fall 2004. The final contract for the 2003 Sewer System Rehabilitation was for Municipal Sewer Relining in the amount of \$1.6 million, with an estimated completion date of November 30, 2004.

Public Works completed the reconstruction of the 2002 Wabasha West projects; Landmark Plaza, Market Street and the North Quadrant Phase III projects in 2003. Construction of the Westminster Junction Bridge and the first phase of Phalen Boulevard was started in 2003, with completion expected in 2004.

Clean up of the Lower Phalen Creek property began during 2003. The land will be used to construct the Bruce Vento Nature Sanctuary at an estimated clean up and construction cost of \$7.5 million.

Parks and Recreation continued to acquire the properties required for the Jimmy Lee Recreation Center Reconstruction Project. Total acquisition costs are budgeted at \$4.8 million. Upon completion of acquisition and planning, the construction of a new center will begin.

Construction of the Como Park Visitor and Education Resource Center (VERC) began in 2003. Total construction costs are estimated at \$23.8 million. This includes the Visitor and Education Resource Center, connections to the Marjorie McNeely Conservatory, a reconstructed Fern Room in the conservatory, a Tropical Encounter exhibit in the VERC, a Children's Activity Zone, construction of a bonsai collection space and an Orchid Growing Area. The anticipated completion date is December 31, 2004.

The City reached substantial completion on the construction of the Samuel Morgan Regional Trail along the east bank of the Mississippi River. The total construction costs will be near \$2.6 million.

Construction of the new Block 19 Municipal Parking Ramp continued in 2003. The ramp is located at 144 East 9<sup>th</sup> Street in the downtown area. Construction costs of \$13.0 million were incurred in 2003 for a total of \$14.6 million as of December 31, 2003. The construction of the ramp is being financed by HRA Parking Revenue Bonds, which were issued in 2002 in the total amount of \$18.5 million. Construction of the ramp was completed in 2004 and was opened for business on April 5, 2004.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

### CAPITAL ASSETS (continued)

#### CAPITAL ASSETS AT YEAR-END NET OF ACCUMULATED DEPRECIATION (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2003	2002	2003	2002	2003	2002	
Land	\$ 137,773	\$ 132,760	\$ 18,382	\$ 18,146	\$ 156,155	\$ 150,906	3.5 %
Buildings	361,671	353,539	54,966	56,961	416,637	410,500	1.5 %
Improvements							
Other Than Buildings	54,650	52,245	-	-	54,650	52,245	4.6 %
Public Improvements	-	-	259,082	263,213	259,082	263,213	(1.6)%
Equipment	26,431	28,025	2,385	2,932	28,816	30,957	(6.9)%
Infrastructure	423,655	430,195	-	-	423,655	430,195	(1.5)%
Construction in Progress	57,745	20,397	26,047	6,708	83,792	27,105	209.1 %
Total	<u>\$1,061,925</u>	<u>\$1,017,161</u>	<u>\$ 360,862</u>	<u>\$ 347,960</u>	<u>\$1,422,787</u>	<u>\$1,365,121</u>	4.2 %

Additional information on the City of Saint Paul's capital assets can be found in Note VI.E. on pages 77-78 of this report.

### LONG-TERM OBLIGATIONS

During 2003, the City issued \$58.6 million in bonds and retired/defeased \$71.4 million, resulting in \$440.0 million in bonds payable at the end of 2003. Of the bonded debt, \$105.4 million is considered to be gross direct general property tax supported debt; considering the \$27.8 million available in the General Debt Service Fund, the net general property tax supported debt at year end was \$77.6 million or \$269 per capita.

The City's General Obligation bonds issued in 2003 continued their Aa2 rating from Moody's Investors Service, Inc., and AAA rating from Standard & Poor's Corporation. The HRA Tax Increment Revenue bond and HRA Tax Increment Revenue Refunding bond issues were not rated. The Sewer Utility issued \$26.3 million Revenue Refunding bonds in 2003, which were upgraded to Aa3 by Moody's and were reaffirmed at AAA by Standard & Poor's.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003

### LONG-TERM OBLIGATIONS (continued)

#### OUTSTANDING DEBT GENERAL OBLIGATION, REVENUE, LEASE REVENUE AND SALES TAX NOTES AND BONDS (in thousands)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2003	2002	2003	2002	2003	2002	
General Obligation Bonds	\$143,140	\$142,100	\$42,060	\$43,190	\$185,200	\$185,290	0.0 %
Revenue Bonds	-	-	29,670	37,285	29,670	37,285	(20.4)%
Sales Tax Revenue Bonds	69,840	70,585	-	-	69,840	70,585	(1.1)%
HRA Tax Increment							
Revenue Bonds	56,889	55,734	-	-	56,889	55,734	2.1 %
HRA Parking Facilities							
Revenue Bonds	-	-	42,100	43,415	42,100	43,415	(3.0)%
HRA Sales Tax							
Revenue Bonds	47,255	48,320	-	-	47,255	48,320	(2.2)%
HRA Lease Revenue Bonds	9,015	12,195	-	-	9,015	12,195	(26.1)%
Revenue Notes	48,297	50,066	20,774	24,611	69,071	74,677	(7.5)%
HRA Revenue Notes	16,103	3,052	-	-	16,103	3,052	427.6 %
Total	<u>\$390,539</u>	<u>\$382,051</u>	<u>\$134,604</u>	<u>\$148,501</u>	<u>\$525,143</u>	<u>\$530,553</u>	(1.0)%

Additional information on the City of Saint Paul's long-term obligations can be found in Note VI.G. on pages 83-102 of this report.

### CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

#### Financial Outlook

The national economic recession and its impact on the State of Minnesota's finances have had (and will continue to have) a major effect on the City's budget. Saint Paul, like other older cities, has traditionally relied heavily on aid payments from the state to help support the general operating budget. In the budget adopted for 2004 (in December 2003) state Local Government Aid (LGA) payments were anticipated to supply 37% of General Fund revenues.

With the state government forecasting a two-year revenue/spending gap in excess of \$4 billion for the 2004/05 state biennium, permanent reductions in the level of state funding support beginning in 2003 were recognized as inevitable by the Mayor and Council. Anticipating this, in January 2003 the City imposed strict hiring, travel and contract limitations and began planning for mid-year budget adjustments to absorb the expected state aid reductions. The Governor's original budget proposal released in early February recommended reductions of approximately \$13 million in 2003 and \$33 million in 2004 (both against the original 2003 budgeted amount of \$76 million).

## **CITY OF SAINT PAUL, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2003**

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#### **CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS (continued)**

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##### **Financial Outlook (continued)**

In response, the City adjusted the 2003 budget in resolutions adopted by the City Council on February 26 and April 16, 2003. In total, these two measures reduced 2003 General Fund spending by about \$10.6 million and increased financing by \$2.4 million. Most of the mid-year budget adjustments adopted in 2003 involved staff reductions and other permanent measures. As a result, these also had the effect of adjusting baseline spending and financing for the 2004 General Fund budget by about \$19 million.

When the Minnesota Legislature adjourned in May 2004, it failed to adopt any significant tax or budget legislation. Therefore, the aid reduction enacted in 2003 remained in place as part of a transition to a smaller state aid program for cities. Under the adopted state budget, LGA payments to Saint Paul are currently forecast to drop by an additional \$3.2 million in 2005. With another state budget deficit of approximately \$1 billion now expected for the FY 06-07 Biennium, the future funding level of state aid programs will remain a major source of uncertainty.

In order to help prepare the City to absorb the additional LGA reductions expected in 2005, in April 2004 the Mayor ordered City departments to restrain General Fund spending by a total of \$1 million below the level budgeted for 2004, and to expect to absorb a similar level of spending restraint in 2005.

##### **Employment Outlook**

The 2003 annual average unemployment rate for the City of Saint Paul was reported by the Minnesota Department of Employment and Economic Development at 5.3%. This compared to state unemployment rate of 4.5% and a U.S. rate of 6.0%. Saint Paul has a balanced and diversified employment picture with no single industry sector dominating. The average annual wage in Saint Paul is \$44,304, compared to \$42,640 in the metro area and \$37,440 in Minnesota.

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#### **REQUESTS FOR INFORMATION**

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The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Office of Financial Services, Attn: Lori Lee, at 15 W. Kellogg Blvd., Room 160; Saint Paul, Minnesota 55102, call 651-266-8822, or e-mail [lori.lee@ci.stpaul.mn.us](mailto:lori.lee@ci.stpaul.mn.us).

General information relating to the City of Saint Paul, Minnesota, can be found at the City's website, [www.ci.stpaul.mn.us](http://www.ci.stpaul.mn.us).

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